

Office of the Legislative Auditor

State of Montana



Report to the Legislature

May 1993

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1992

Department of Health and Environmental Sciences

This report contains recommendations related to:

- ▶ Compliance with federal regulations.
- ▶ Accurate recording of financial activity in accordance with state policy.
- ▶ Improving EDP controls for the WIC program.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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May 1993

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Health and Environmental Sciences for fiscal years 1990-91 and 1991-92. Included in this report are recommendations concerning compliance with federal regulations, accurate recording of financial activity in accordance with state policy, and improving EDP controls over the WIC program. The department's written response to the audit recommendations is included in the back of the audit report.

We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1992

Department of Health and Environmental Sciences

Members of the audit staff involved in this audit were Brenda Bokovoy, Pete Brustkern, Tori Hunthausen, Jim Manning, Rich McRae, Lorry Parriman, and Patti J. Robertson.

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Appointed and Administrative Officials

Administrative Officials

Robert Robinson, Director effective January 1993

William J. Opitz, Deputy Director

Raymond J. Hoffman, Administrator, Centralized Services Division

Steven Pilcher, Administrator, Environmental Sciences Division

Dale J. Taliaferro, Administrator, Health Services Division

Denzel Davis, Administrator, Health Facilities Division

Board of Health and Environmental Sciences

Raymond Gustafson, D.V.M.	Conrad	1993
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Paul L. Kathrein, O.D.	Great Falls	1993
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Remington C. Kohrt	Darby	1995
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Stuart Reynolds, M.D.	Havre	1993
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Dennis D. Schreffler, M.D.	Billings	1995
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David Simpson	Hardin	1993
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Jeremy Thane	Missoula	1995
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Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the department maintain a system to monitor the state's receipt, review, and resolution of all required audit reports and report issues, in compliance with federal regulations.	7
	<u>Agency Response:</u> Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the department establish procedures to ensure accurate reports are provided to the federal government in accordance with federal regulations.	8
	<u>Agency Response:</u> Concur. See page B-3.	
<u>Recommendation #3</u>	We recommend the department record deferred revenue in accordance with state accounting policy.	9
	<u>Agency Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the department review account balances to ensure financial activity in its federal special revenue accounts is recorded in accordance with state accounting policy.	10
	<u>Agency Response:</u> Concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the department analyze and correct the account balances in the federal Public Health account.	12
	<u>Agency Response:</u> Concur. See page B-4.	
<u>Recommendation #6</u>	We recommend the department: A. Coordinate with the Governor's Office to ensure the Water Pollution Control Advisory Council complies with state law, or <u>Agency Response:</u> Concur. See page B-5. B. Consider legislation to eliminate the council.	12
	<u>Agency Response:</u> Concur. See page B-5.	

Summary of Recommendations

<u>Recommendation #7</u>	We recommend the department implement procedures to:	
	A. Monitor programmer access to production programs and datafiles.	
	<u>Agency Response:</u> Concur. See page B-5.	
	B. Prevent unauthorized use of WIC program billing account numbers.	
	<u>Agency Response:</u> Concur. See page B-5.	
	C. Review ACF2 reports for unauthorized access to system programs and billing account numbers.	14
	<u>Agency Response:</u> Concur. See page B-5.	
<u>Recommendation #8</u>	We recommend the department implement procedures to suspend mainframe logon IDs upon contract personnel termination.	15
	<u>Agency Response:</u> Concur. See page B-6.	
<u>Recommendation #9</u>	We recommend the department develop a disaster recovery plan for its WIC application, in accordance with state policy.	16
	<u>Agency Response:</u> Partially Concur. See page B-6.	
<u>Recommendation #10</u>	We recommend the department implement policies and procedures to ensure security over computer data and information resources in-accordance with state law.	17
	<u>Agency Response:</u> Concur. See page B-6.	
<u>Recommendation #11</u>	We recommend the department establish procedures to document and reconcile application errors.	19
	<u>Agency Response:</u> Do Not Concur. See page B-7.	
<u>Recommendation #12</u>	We recommend the department follow a systematic development approach for the proposed WIC computer system.	20
	<u>Agency Response:</u> Concur. See page B-8.	

General

We performed a financial-compliance audit of the Department of Health and Environmental Sciences (department) for fiscal years 1990-91 and 1991-92. The objectives of the audit were to:

1. Determine if the department complied with applicable laws and regulations.
2. Make recommendations for the improvement in the administration, management, electronic data processing, and accounting controls of the department.
3. Determine if the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1992.
4. Determine implementation status of prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations contained in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

Background

The Department of Health and Environmental Sciences was created to protect and promote the health of the people of Montana through implementation of public health programs and the enforcement of public health laws and regulations. The department is also responsible for ensuring that a safe and healthful environment exists in Montana through implementation of environmental protection programs and enforcement of environmental laws and regulations. The general powers and duties of the department are detailed in Title 50, MCA.

In addition to the director's office, the department has four divisions:

Centralized Services Division performs the general administrative and fiscal support functions of the department. The division includes the: 1) Support Services, 2) Vital Records and

Introduction

Statistics, 3) Chemistry Laboratory, 4) Public Health Laboratory, and 5) Information Services bureaus.

Environmental Sciences Division ensures that people have a livable and wholesome environment. The division includes the: 1) Air Quality, 2) Occupational and Radiological Health, 3) Solid and Hazardous Waste, and 4) Water Quality bureaus.

Health Services Division includes the department's health planning functions and is primarily responsible for administering certificate of need laws and rules. The division includes the: 1) Emergency Medical Services, 2) Preventive Health Services, 3) Family/Maternal and Child Health, and 4) Food and Consumer Safety bureaus.

Health Facilities Division is responsible for the regulatory oversight of health-related services and facilities. The division includes the: 1) Certification, and 2) Licensure bureaus.

The Board of Health and Environmental Sciences is attached to the department. The board consists of seven members appointed by the governor. The board advises the department on public health matters. The board also has the authority to establish rules and hold public hearings on health matters such as air quality, water quality, and solid waste management.

The Petroleum Tank Release Compensation Board is a statutory board, administratively attached to the department. The board was created by section 8, Chapter 528, Laws of 1989. The board consists of seven members appointed by the governor. The board is to ensure the cleanup of petroleum products which leak from storage tanks, and to reimburse the owners or operators of eligible tanks for their expenses in cleaning up such leaks. The board also compensates persons who live on or own property near leaking tanks for any bodily injury or property damage they may sustain as a result of the leaks.

The department works with county health departments throughout the state and contracts with counties, individuals, and private organizations to administer various health and environmental programs. These programs include Food and Consumer Safety, Air Quality, Junk Vehicle, Underground Storage Tank (UST), and Public Water Grants, as well as, Nutritional and Preventive Health Services such as Montana's Initiative for the Abatement

of Mortality in Infants (MIAMI), Immunization, Rabies, and Sexual Assault Services.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit report for the two fiscal years ended June 30, 1990 contained eight individual recommendations to the department. Of the seven recommendations still applicable, the department has implemented five, partially implemented one recommending accurate federal reports, and has not implemented one recommending timely receipt of subrecipient audit reports. The two recommendations not fully implemented are discussed on pages 5 and 7 of this report.

Findings and Recommendations

Federal Compliance

The department receives federal financial assistance from the U.S. Department of Health and Human Services (DHHS) - CFDA #93.xxx, and the United States Department of Agriculture (USDA) - CFDA #10.xxx. During fiscal year 1991-92, expenditures from these agencies totalled \$6,754,861 and \$14,429,812, respectively. The department subgrants the majority of this assistance to local governments, primarily county governments. Federal regulations require the department to determine whether local governments, which receive subgrants of federal moneys through the department, have met the audit requirements of the United States Office of Management and Budget (OMB) Circular A-128. Failure to monitor subrecipient contracts adequately results in a lack of assurance that such contracts are properly administered. Noncompliance could result in the loss of future federal funding. During the last audit, we identified concerns about the department's compliance with subrecipient monitoring requirements. The following sections discuss concerns noted during our current review of the department's compliance with the federal requirements.

Subrecipient Monitoring

During our prior audit, we noted the department did not have an adequate system to monitor audits of local governments which receive subgrants through the department. The department concurred with our recommendation to ensure it receives subrecipient audit reports in a timely manner. In May 1991, the department established an internal policy for subrecipient monitoring and prepared a control schedule to monitor the due dates of the audit reports. However, during our current audit we determined the department's subrecipient monitoring procedures are not consistently followed.

The audit reports for counties with audit periods documented as ending June 30, 1990, were due to the department by June 30, 1991. We noted only eight of thirty-two county audit reports had been received as of February 28, 1992. We reviewed five of these county files and found no correspondence regarding the untimely receipt of the audit reports. Eleven counties are documented on the control schedule as having a two year audit

Findings and Recommendations

period ending June 30, 1991, but two of the eleven counties actually had audit periods ending June 30, 1990. In addition, two counties had no audit period documented; therefore, the department does not know when to expect these reports.

OMB Circular A-128 states subrecipients shall submit copies (of the audit reports) to recipients that provided the assistance. The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to by the federal cognizant agency. Also, there is a provision included in the contracts between the department and the local governments requiring timely submission of audit reports.

We discussed our concerns with department officials during the interim phase of the audit and reported these issues in our 1991 Single Audit report. Our subsequent followup identified increased concerns. As of February 3, 1993, only 16 of the 44 county audit reports due June 30, 1992, had been received by the department. Only 2 of these 16 reports have been reviewed and followup initiated. The control schedule has no indication of whether the remaining 14 reports require followup. Review of 5 county files showed no documentation of an attempt to request the missing reports.

We reviewed the current job description for the department's auditor position within the Support Services Bureau (SSB). It allocates 40 percent of the position's time toward developing and maintaining a system to ensure all the required audits are received and to review all audits for compliance with audit standards. If programmatic problems are noted in an audit report, SSB is responsible for bringing those issues to the attention of the appropriate program manager. The current auditor indicated the time allocation is unrealistic. The subrecipient monitoring control schedule is reviewed and updated as time permits; however, other internal projects keep him busy.

Title 2, chapter 7, part 5, MCA, is cited as the State Single Audit Act. The Act places the responsibility of auditing all counties, at least every two years, on the Local Government Services Bureau (LGS) of the Department of Commerce. An audit conducted

Findings and Recommendations

pursuant to this part is in lieu of any compliance audit that a local government is required to conduct under any other federal regulation.

However, as grantor, the department is responsible to ensure subrecipient contracts are properly administered and the required audits are conducted. The department currently has no written agreement with LGS assigning the department's responsibilities, as grantor, of the timely receipt and review of the audit reports. Department personnel stated it was their understanding that LGS was going to notify state agencies as to agency versus LGS responsibilities.

Recommendation #1

We recommend the department maintain a system to monitor the state's receipt, review, and resolution of all required audit reports and report issues, in compliance with federal regulations.

Federal Financial Status Reports

During the last two audits of the department, we identified errors on federal financial status reports (FSRs). The department concurred with, but did not fully implement, our recommendation to ensure amounts are reported accurately and in compliance with federal regulations.

During the current audit we determined the department has inadequate review procedures to ensure amounts and information reported on the FSR are mathematically accurate. Federal regulations require that financial status reports submitted to the federal government be accurate and supported by the department's records. We reviewed the Child Nutrition (CFDA #10.558) FSR for the federal fiscal year 1990-91. We noted a typographical error in the net outlays to date line item overstated the amount by \$6,000. Although the total federal funds reported is correct, the report amounts when added, do not equal the total.

Findings and Recommendations

We reviewed three additional fiscal year 1990-91 quarterly Child Nutrition FSRs and noted typographical errors in two of the three reports. One FSR reported inconsistent dates for the period covered by the report. The second FSR showed total net outlays to date understated by \$200. Although the total federal share of expenditures reported is correct, the column amounts, when added do not equal the total. Review procedures, including report totals, would have prevented these mathematical errors. We discussed our findings with the department during interim phase of the audit and reported the issue in our 1991 Single Audit report.

Recommendation #2

We recommend the department establish procedures to ensure accurate reports are provided to the federal government in accordance with federal regulations.

Accounting Issues

The department's financial information is used by department personnel and legislators to manage and establish funding levels for the department. Section 17-1-102, MCA, states, "All state agencies. . . shall input all the necessary transactions to the accounting system. . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. . ." In addition, state policy is outlined in the Montana Operations Manual (MOM). Accounting for financial activity in accordance with these requirements improves the quality, consistency, and comparability of the resulting financial information within and between state agencies. The following sections discuss where the department did not comply with state accounting policy and law.

Findings and Recommendations

Deferring Fund Balance

During the audit we identified eight instances in fiscal year 1990-91 and seven instances in fiscal year 1991-92, where the department inappropriately deferred fund balances, ranging from \$841 to \$467,459, to the next fiscal year. These deferrals totaled \$583,301 and \$113,247 at June 30, 1991 and 1992, respectively.

State policy defines deferred revenue as an amount for which the cash has been received or a valid receivable exists, but for which the revenue has not been earned. The effect of deferring revenue decreases revenue and ending fund balance.

When we notified management, department officials said the deferrals were errors in accounting caused by the lack of staff, turnover in staff, and human error.

Recommendation #3

We recommend the department record deferred revenue in accordance with state accounting policy.

Inadequate Review of Account Balances

At fiscal year-end 1991-92, the department maintained nine federal special revenue accounts with ending fund balances ranging from a negative \$67,479 to a positive \$6,000.

CFDA #10.557 Women, Infants, and Children (WIC)	\$(67,479)
CFDA #93.283 Public Health SRF	(45,803)
CFDA #66.001 EPA Air Quality	(3,722)
CFDA #93.118 Seroprevalence	(197)
CFDA #93.994 Maternal and Child Health (MCH)	433
CFDA #66.432 EPA Safe Water	900
CFDA #66.419 EPA 106 Water	5,170
CFDA #66.458 State Revolving Fund (SRF)	5,463
CFDA #66.460 Non Point Source (NPS)	6,000

State policy (MM 2-92-4) requires the fund balance in federal special revenue accounts be zero at fiscal year-end. Federal

Findings and Recommendations

funds spent should always equal federal revenues. Any unspent revenue balance or advance should be deferred and revenue for amounts spent but not yet reimbursed by the federal government should be accrued.

Department personnel said the reasons for the errors that resulted in the ending fund balances is the large number of accounting entities the agency has and the lack of adequate personnel during the audit period to account for the entities. The department should perform a supervisory review of account balances to ensure federal activity is recorded in compliance with state accounting policy.

Recommendation #4

We recommend the department review account balances to ensure financial activity in its federal special revenue accounts is recorded in accordance with state accounting policy.

Other Accounting Errors

During the audit we found several accounting errors within the federal Public Health special revenue account. The following two sections describe the errors.

Properly Recording Revenue Sources

The department has an inter-agency service agreement with the Department of State Lands (DSL). The department appoints a water quality specialist who is specifically responsible for the review of water quality control and monitoring requirements of the Montana Metal Mine Reclamation Act and DSL rules adopted pursuant to that Act. This activity is not related to the Federal Public Health Act. DSL reimburses the department a percentage of the specialist's salary, benefits and indirect costs from its general fund and state special revenue fund sources. The department recorded the expenditures and related reimbursement of \$16,107 and \$22,342 in the federal Public Health account for fiscal years 1990-91 and 1991-92, respectively.

Findings and Recommendations

State policy defines a federal special revenue fund as a fund consisting of money deposited from a federal source that is used for the operation of state government. The reimbursement under this agreement is not federal money and should not be recorded in the federal account.

Accounting Errors

We reviewed two transactions which improperly recorded revenue in the federal Public Health account. The first transaction originally deferred unspent federal revenue at fiscal year-end 1991-92. The deferral was reversed by mistake. Rather than re-establishing the deferral, personnel incorrectly recorded a receivable and the related revenue. This resulted in the revenue being recorded twice for an overstatement of \$6,022.

The second error added two federal disabilities prevention project amounts, recording a \$3,110 receivable, rather than netting the two amounts and deferring \$361 in unspent revenue. This resulted in a revenue overstatement of \$2,749. Together, the two accounting errors overstate revenue by \$8,771 in fiscal year 1991-92.

Also, the federal Public Health account had a balance of \$5,684 in Property Held in Trust (PHIT) at June 30, 1992. State policy defines PHIT as the value assigned to property held by the department in a trustee capacity. Accounting personnel said \$462 is cash remaining from a contract that the department does not have to pay back. The origin of the remaining \$5,222 PHIT could not be explained.

Accounting personnel refer to the federal Public Health account as a catch-all account with several miscellaneous projects recorded in it. The department should track the activity of the several projects and ensure accuracy of account balances.

Findings and Recommendations

Recommendation #5

We recommend the department analyze and correct the account balances in the federal Public Health account.

Water Pollution Control Advisory Council

The Water Pollution Control Advisory Council was established to act in an advisory capacity to the department on matters relating to water pollution. Section 2-15-2107, MCA, requires the council to consist of eleven members representing various environmental concerns. As of February 11, 1993, the council had two vacancies. Although they intend to fill the vacancies, Governor's Office personnel said the council is inactive. Section 75-5-221, MCA, requires the council to hold at least two regular meetings each calendar year. We determined the council has not met in the past three years.

Recommendation #6

We recommend the department:

- A. Coordinate with the Governor's Office to ensure the Water Pollution Control Advisory Council complies with state law, or**
- B. Consider legislation to eliminate the council.**

Electronic Data Processing

The Department of Health and Environmental Sciences operates its Women, Infants, and Children (WIC) program computer system on the state's mainframe computer. The application maintains client records of individuals participating in the program, accounts for food vouchers issued to clients, and provides program statistics.

Findings and Recommendations

We reviewed general and application controls over the WIC computer system. We examined general controls to determine whether the WIC application operates within an effective control environment. Based on our findings, we determined overall general controls are not sufficient to ensure the integrity of the WIC application. We identified the following general control concerns related to access and physical security.

We also performed a limited review of application controls to evaluate the adequacy and accuracy of data processed by the WIC application. Our application control findings are discussed beginning on page 17.

Access Controls

The department uses a mainframe computer software package called Access Control Facility-2 (ACF2) to provide control over electronic access to programs and data stored on the mainframe computer. ACF2 limits access through electronic rules which allow or prevent user access. Agency security officers are required to write rules using ACF2 to identify who is permitted to access which libraries, and who uses specific billing numbers.

ACF2 software requires WIC personnel to enter a valid logon identification number, password, and billing account number. We reviewed access controls in place over the WIC mainframe computer application. The following two sections discuss our concerns regarding access controls.

Inadequate Access Controls

We determined the ACF2 security rules do not limit or record programmer access to WIC production programs and datafiles. In addition, department personnel do not review ACF2 reports for unauthorized access. Access to production programs and datafiles allows programmers to make unauthorized changes to computer systems. The potential exists for unauthorized and untraceable manipulations of critical information.

Electronic data processing (EDP) guidelines suggest agency managers limit program and data file access to persons requiring access for their job duties. In addition, MOM 1-0250.00 states each department head is responsible for assuring adequate security for data and information technology resources within

Findings and Recommendations

the department. Programmer access should be restricted to test programs and files needed for a given assignment. If a programmer is allowed access to production programs or data files, the access should be logged and closely monitored.

The department security officer believes programmer access to production programs and datafiles is necessary for job performance. However, programmer duties can and should be completed using test programs and datafiles. In addition, the security officer should review ACF2 reports to monitor user access for unauthorized activity. Since security officers have full access to all programs and data, we believe an independent review should be performed.

We also determined security rules do not prevent unauthorized use of WIC billing account numbers. As a result, the WIC program could potentially be billed for unauthorized mainframe computer processing charges. The department security officer and WIC program personnel should review ACF2 reports to monitor user access and use of billing account numbers. A WIC program official stated he would like to review ACF2 reports to monitor use of billing account numbers.

Recommendation #7

We recommend the department implement procedures to:

- A. Monitor programmer access to production programs and datafiles.**
- B. Prevent unauthorized use of WIC program billing account numbers.**
- C. Review ACF2 reports for unauthorized access to system programs and billing account numbers.**

Timely Suspension of Logon IDs

We reviewed the department's mainframe logon IDs to determine whether they are assigned to current WIC mainframe users. Of ten WIC users tested, we noted two contracted personnel logon

Findings and Recommendations

IDs were not suspended upon termination. We determined the department suspended access for one logon ID four months after termination. On January 26, 1993, the department security officer suspended access for the second logon ID after we brought it to his attention, but the contract expired June 30, 1992. ACF2 records indicate someone had used the logon ID since the time the contract expired. The login ID has access to WIC datafiles and could be used to make unauthorized changes.

By not suspending logon IDs upon employment termination, the department increases its risk that unauthorized persons will access sensitive information and make inappropriate changes to WIC programs and data. The department should suspend logon IDs when an employee terminates to maintain an acceptable level of security over computer systems.

The department security officer indicated he was not notified when the two contract personnel were terminated. The department should develop policies and procedures for notifying the security officer upon contract personnel termination.

Recommendation #8

We recommend the department implement procedures to suspend mainframe logon IDs upon contract personnel termination.

Physical Security

Physical security controls provide security against accidental loss or destruction of records and ensure continuous operation of the EDP function. Physical controls include safeguarding files, programs, and documentation from loss due to theft, disaster, or malicious acts. We reviewed physical security controls in place over the WIC mainframe computer application. The following two sections discuss our findings related to physical security.

Findings and Recommendations

Disaster Recovery Plan

Disaster recovery procedures provide for restoration of operations after a physical disaster or hardware failure has taken place. We determined the department does not have a disaster recovery plan for the WIC mainframe application. In addition, the department does not have formal procedures to recover the WIC system and user documentation. If a disaster occurs, the department would be unable to process certification records or account for vouchers issued to clients.

Management should maintain adequate written recovery procedures to ensure efficient system recovery from either short-term interruption or major catastrophe. MOM section 1-0240.00 outlines agency responsibilities regarding disaster recovery planning. These include assigning recovery team member responsibilities; assessing information and resource requirements necessary to maintain the application; and determining alternate procedures if recovery cannot be completed timely. Documented and tested recovery procedures allow normal operations to resume as quickly as possible following a disaster. Without a formal documented disaster recovery plan, department personnel may be unable to efficiently recover the WIC application.

A WIC program official indicated disaster recovery procedures for the application are the responsibility of Department of Administration. However, Department of Administration is only responsible for recovery of the mainframe computer. The Department of Health & Environmental Sciences is responsible for recovery of the WIC application. The department should define team member assignments, application requirements, alternate procedures, and provide for recovery of system and user documentation.

Recommendation #9

We recommend the department develop a disaster recovery plan for its WIC application, in accordance with state policy.

Findings and Recommendations

Internal Security Evaluations

Section 2-15-114, MCA, specifies each department head is responsible for an adequate level of security over data within the department and implementing appropriate cost-effective safeguards to reduce, eliminate, or recover from identified threats to data. The statute also requires department officials ensure internal evaluations of the security program for data and information technology resources are conducted.

A comprehensive internal security review includes a detailed analysis of general and application controls in place over data processing functions. In November 1992, the department drafted internal security policies and procedures. The department could have prevented or corrected many of the audit issues we identified by implementing formal internal security policies and procedures.

Recommendation #10

We recommend the department implement policies and procedures to ensure security over computer data and information resources in accordance with state law.

Application Controls

Local WIC agencies determine applicant eligibility, manually issue food vouchers to eligible participants, and report caseload information to the department in Helena. Department personnel enter data received from local clinics to the WIC computer system. The system maintains certification records for client participation in the food supplement program, accounts for issued and paid vouchers, and reports program statistics.

We performed a limited review of application controls in place over the WIC computer system. We reviewed input controls to determine whether client certification forms and food voucher logs were properly authorized and input to the system. We reviewed processing controls to determine whether food vouchers were processed completely and accurately. Finally, we

Findings and Recommendations

reviewed output controls to determine if food vouchers were properly reported on system reconciliation reports. We also reviewed application documentation and the audit trail. The following sections discuss our findings regarding application controls.

Error Resolution Correction Procedures

The department processes weekly edit reports which identify differences between the value of vouchers issued and actual redeemed value. Department personnel send edit reports to local clinics once each month and allow clinics 30 days to investigate and resolve differences greater than five dollars. Clinics identify differences as store, clinic, or keypunch errors. Store errors occur when a store redeems a voucher in excess of its issued value. Clinic errors occur if clinic personnel incorrectly record vouchers issued on daily log sheets. Keypunch errors result when department personnel improperly enter daily log sheet data to the computer system. If the difference is a store error, the department initiates collection from the vendor. Keypunch and clinic errors are noted as such, but the correct information is not re-entered into the system.

We tested 30 food vouchers issued in November 1992, and found 7 vouchers were reported on weekly edit reports. Department personnel had not resolved these errors as of January 28, 1993. A WIC program official indicated several local WIC agencies operate on a quarterly schedule, per contract agreement. As a result, the clinics may not resolve differences until five months after a voucher is issued. The department should implement procedures to review and resolve food voucher errors. The errors should be corrected. Unless corrected, the information on the WIC application does not support the information on the state's accounting records.

EDP guidelines suggest management review and control the correction and resubmission of all errors detected by an application system. The department's current procedures could allow clients to redeem vouchers for up to five months before store, clinic, or keypunch errors are resolved.

Recommendation #11

We recommend the department establish procedures to document and reconcile application errors.

Plan to Replace Current System

Based on our WIC application findings, we determined overall general and application controls for the current WIC program are not adequate to ensure application integrity. We found the department does not have adequate electronic access controls, disaster recovery procedures, formal security procedures, and adequate application controls for the current application. The department has written a request for proposal to replace the current WIC computer system. The department should address these issues when developing the proposed computer system.

The proposed system aims to improve services, increase local agency efficiency, improve accountability, and provide more accurate and useful management information. Department personnel indicated the proposed computer system will decentralize user responsibility by shifting input duties to local clinic offices.

Without careful planning, decentralizing the WIC application could increase general and application control weaknesses. EDP guidelines suggests the department follow a systematic development approach for the proposed system. This process includes but is not limited to:

- Independent review of the proposed system during critical stages of development.
- Review and approval of written specifications by appropriate management and application users.
- Users should be involved during system testing.
- Department management should obtain final approval prior to placing the system into operation.

Findings and Recommendations

- All master file and transaction file conversions should be controlled to prevent unauthorized changes.
- Management should document all policies and procedures associated with implementation and maintenance of general controls.

Recommendation #12

We recommend the department follow a systematic development approach for the proposed WIC computer system.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. We issued an unqualified opinion on all financial schedules presented in this report. The unqualified opinion means the schedules are fairly stated in all material respects and the user can rely on the information presented.



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Health and Environmental Sciences for each of the two fiscal years ended June 30, 1991 and 1992, as shown beginning on page A-4. The information contained in these schedules is the responsibility of the department's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Health and Environmental Sciences for the two fiscal years ended June 30, 1992, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett", with a long horizontal flourish extending to the right.

James Gillett, CPA
Deputy Legislative Auditor

February 9, 1993

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Funds</u>
FUND BALANCE: July 1, 1990	\$ <u>0</u>	\$ <u>5,894,321</u>	\$ <u>177,476</u>
ADDITIONS:			
<u>Fiscal Year 1990-91</u>			
Budgeted Revenue & Transfers In	354,167	30,822,673	955,833
Nonbudgeted Revenue	144,321	28,534	
Support From State of Montana	3,176,575		
Cash Transfers In (Note 6)		6,060,514	
Prior Year Revenue Adjustments		125,714	393
Prior Year Expenditure Adjustments		554,927	
<u>Fiscal Year 1991-92</u>			
Budgeted Revenue & Transfers In	330,440	41,083,668	2,312,227
Nonbudgeted Revenue	333,799	(2,200)	
Support From State of Montana	3,241,495		
Cash Transfers In (Note 6)		3,253,084	
Prior Year Revenue Adjustments	12,899	67,806	
Prior Year Expenditure Adjustments (Note 5)		1,270,368	
Prior Year Revenue		(40,820)	
Direct Entries to Fund Balance			2,978
Total Additions	<u>7,593,696</u>	<u>83,226,268</u>	<u>3,271,431</u>
REDUCTIONS:			
<u>Fiscal Year 1990-91</u>			
Budgeted Expenditures	3,648,332	33,543,150	989,203
Prior Year Expenditure Adjustments	26,221		354
Prior Year Revenue Adjustments	510		
Prior Year Expenditures		70,510	(13)
Direct Entries to Fund Balance		(83)	18,714
Nonbudgeted Expenditures			28,597
<u>Fiscal Year 1991-92</u>			
Budgeted Expenditures	3,857,453	40,557,795	1,596,447
Prior Year Expenditure Adjustments	61,180		4,379
Prior Year Revenue Adjustments			33
Prior Year Expenditures		(42,950)	
Direct Entries to Fund Balance		1,718	
Nonbudgeted Expenditures & Transfers Out (Note 8)		5,481,912	61,427
Total Reductions	<u>7,593,696</u>	<u>79,612,052</u>	<u>2,699,141</u>
FUND BALANCE: June 30, 1992	\$ <u>0</u>	\$ <u>9,506,537</u>	\$ <u>749,766</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

Fiscal Year 1991-92

GENERAL FUND

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

SPECIAL REVENUE FUND

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

INTERNAL SERVICE FUNDS

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

Fiscal Year 1990-91

GENERAL FUND

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

SPECIAL REVENUE FUND

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

INTERNAL SERVICE FUNDS

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

¹ See note 9 on page A-1

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	<u>Licenses and Permits</u>	<u>Charges For Services</u>	<u>Investment Earnings</u>	<u>Fines & Forfeits</u>	<u>Sale of Documents, Merchandise</u>	<u>Grants, Contracts, Donations</u>	<u>Other Financing Sources</u>	<u>Federal</u>	<u>Federal Indirect Cost Recoveries</u>	<u>Total</u>
<u>Fiscal Year 1991-92</u>										
GENERAL FUND										
Estimated Revenue	\$ 95,000	\$ 91,000								\$ 186,000
Actual Revenue	<u>243,398</u>	<u>87,042</u>								<u>330,440</u>
Collections Over (Under) Estimate	\$ <u>148,398</u>	\$ <u>(3,958)</u>								\$ <u>144,440</u>
SPECIAL REVENUE FUND										
Estimated Revenue	\$4,084,623	\$ 8,337,295	\$563,723	\$20,000	\$ 62,507	\$ 626,369	\$ 265,000	\$40,234,817		\$ 54,194,334
Actual Revenue	<u>4,183,884</u>	<u>2,521,400</u>	<u>545,266</u>	<u>20,000</u>	<u>38,552</u>	<u>75,736</u>	<u>152,622</u>	<u>33,546,208</u>		<u>41,083,668</u>
Collections Over (Under) Estimate	\$ <u>99,261</u>	\$ <u>(5,815,895)</u>	\$ <u>(18,457)</u>	\$ <u>0</u>	\$ <u>(23,955)</u>	\$ <u>(550,633)</u>	\$ <u>(112,378)</u>	\$ <u>(6,688,609)</u>		\$ <u>(13,110,666)</u>
INTERNAL SERVICE FUNDS										
Estimated Revenue		\$ 177,715							\$1,290,281	\$ 1,467,996
Actual Revenue		<u>189,944</u>							<u>2,122,283</u>	<u>2,312,227</u>
Collections Over (Under) Estimate		\$ <u>12,229</u>							\$ <u>832,002</u>	\$ <u>844,231</u>
<u>Fiscal Year 1990-91</u>										
GENERAL FUND										
Estimated Revenue	\$ 75,500	\$ 122,000								\$ 197,500
Actual Revenue	<u>200,098</u>	<u>154,069</u>								<u>354,167</u>
Collections Over (Under) Estimate	\$ <u>124,598</u>	\$ <u>32,069</u>								\$ <u>156,667</u>
SPECIAL REVENUE FUND										
Estimated Revenue	\$2,189,694	\$1,807,112	\$301,200	\$ 61,051	\$229,266	\$268,000		\$30,373,891		\$ 35,230,214
Actual Revenue	<u>1,347,422</u>	<u>1,375,739</u>	<u>586,543</u>	<u>33,134</u>	<u>267,432</u>	<u>186,000</u>		<u>27,026,403</u>		<u>30,822,673</u>
Collections Over (Under) Estimate	\$ <u>(842,272)</u>	\$ <u>(431,373)</u>	\$ <u>285,343</u>	\$ <u>(27,917)</u>	\$ <u>38,166</u>	\$ <u>(82,000)</u>		\$ <u>(3,347,488)</u>		\$ <u>(6,407,541)</u>
INTERNAL SERVICE FUNDS										
Estimated Revenue									\$ 934,079	\$ 934,079
Actual Revenue									<u>955,833</u>	<u>955,833</u>
Collections Over (Under) Estimate									\$ <u>21,754</u>	\$ <u>21,754</u>

¹ See note 9 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

PERSONAL SERVICES

Salaries
Other Compensation
Employee Benefits
Total

OPERATING EXPENSES

Other Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Total

EQUIPMENT AND INTANGIBLE

Equipment
Intangible Assets
Total

GRANTS

From State Sources
From Federal Sources
From Other Sources
Total

BENEFITS & CLAIMS

From State Sources
From Federal Sources
Total

TOTAL PROGRAM EXPENDITURE

GENERAL FUND

Budgeted
Actual
Unspent Budget Authority

SPECIAL REVENUE FUND

Budgeted
Actual
Unspent Budget Authority

INTERNAL SERVICE FUNDS

Budgeted
Actual
Unspent Budget Authority

¹See note 7 on page A-1.

This schedule is prepared

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

	Director's Office	Central Services	Environmental Sciences	Solid/ Hazardous Waste	Water Quality	Health Services/ Medical Facilities	Family/MCH Bureau	Preventive Health Bureau	Health Facilities Division	Petro Tank Release Com Board	Total
PERSONAL SERVICES											
Salaries	\$ 430,689	\$1,412,959	\$1,383,136	\$ 1,778,843	\$1,596,633	\$ 396,738	\$ 682,950	\$ 527,230	\$1,245,327	\$ 335,174	\$ 9,789,679
Other Compensation	1,500				125						1,625
Employee Benefits	86,696	357,806	301,727	398,775	350,894	89,629	159,002	121,426	277,585	78,928	2,222,468
Total	<u>518,885</u>	<u>1,770,765</u>	<u>1,684,863</u>	<u>2,177,618</u>	<u>1,947,622</u>	<u>486,367</u>	<u>841,952</u>	<u>648,656</u>	<u>1,522,912</u>	<u>414,102</u>	<u>12,013,772</u>
OPERATING EXPENSES											
Other Services	133,509	274,935	2,746,594	2,287,991	679,573	223,919	1,771,911	604,463	20,854	44,540	8,788,289
Supplies & Materials	18,904	273,713	139,541	142,016	106,780	21,868	37,622	218,196	37,383	48,122	1,044,145
Communications	9,920	85,354	72,462	104,788	87,171	43,904	36,185	49,542	50,065	22,092	561,483
Travel	7,851	10,540	104,735	99,969	118,835	70,414	121,442	62,826	193,435	26,716	816,763
Rent	15,827	102,462	72,353	79,599	63,295	17,218	30,493	21,415	55,418	24,089	482,169
Utilities		10,464	6,669	10,696		608			1,909	5,456	33,802
Repair & Maintenance	4,127	73,373	20,297	15,855	20,267	5,176	10,833	3,553	4,271	1,920	159,672
Other Expenses	45,062	181,961	357,397	474,215	433,747	95,312	145,216	107,482	243,559	83,440	2,167,391
Total	<u>235,200</u>	<u>1,012,802</u>	<u>3,520,048</u>	<u>3,215,129</u>	<u>1,509,668</u>	<u>478,419</u>	<u>2,153,702</u>	<u>1,067,477</u>	<u>606,894</u>	<u>256,375</u>	<u>16,053,714</u>
EQUIPMENT AND INTANGIBLE ASSETS											
Equipment		70,151	81,423	27,853	53,704	10,408			31,254	13,914	294,997
Intangible Assets		1,258	1,811	6,001	27,210		6,290			273	36,553
Total		<u>71,409</u>	<u>83,234</u>	<u>33,854</u>	<u>80,914</u>	<u>10,408</u>	<u>6,290</u>		<u>31,254</u>	<u>14,187</u>	<u>331,550</u>
GRANTS											
From State Sources				62,075	8,250						70,325
From Federal Sources			189,541		44,630						9,797,497
From Other Sources			355,865	789,250	53,791		9,551,358	11,968			1,198,906
Total			<u>545,406</u>	<u>851,325</u>	<u>106,671</u>		<u>9,551,358</u>	<u>11,968</u>			<u>11,066,728</u>
BENEFITS & CLAIMS											
From State Sources										1,585,906	1,585,906
From Federal Sources											6,960,025
Total							<u>6,960,025</u>			<u>1,585,906</u>	<u>8,545,931</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 754,085</u>	<u>\$2,854,976</u>	<u>\$5,833,551</u>	<u>\$ 6,277,926</u>	<u>\$3,644,905</u>	<u>\$ 975,194</u>	<u>\$19,513,327</u>	<u>\$1,728,101</u>	<u>\$2,161,060</u>	<u>\$2,268,570</u>	<u>\$46,011,695</u>
GENERAL FUND											
Budgeted	\$ 210,703	\$ 546,687	\$ 847,804	\$ 188,987	\$ 219,995	\$ 508,831	\$ 1,353,002	\$ 201,047	\$ 450,293		\$ 4,527,349
Actual	200,506	526,842	803,272	164,452	219,995	500,151	797,410	194,557	450,268		3,857,453
Unspent Budget Authority	<u>\$ 10,197</u>	<u>\$ 19,845</u>	<u>\$ 44,532</u>	<u>\$ 24,535</u>	<u>\$ 0</u>	<u>\$ 8,680</u>	<u>\$ 555,592</u>	<u>\$ 6,490</u>	<u>\$ 25</u>		<u>\$ 669,896</u>
SPECIAL REVENUE FUND											
Budgeted	\$ 96,241	\$1,429,496	\$8,452,479	\$13,169,167	\$5,866,527	\$1,106,930	\$19,372,996	\$2,041,225	\$1,909,607	\$4,400,000	\$57,844,668
Actual	72,862	1,373,767	4,868,916	6,113,474	3,424,910	475,043	18,715,917	1,533,544	1,710,792	2,268,570	40,557,795
Unspent Budget Authority	<u>\$ 23,379</u>	<u>\$ 55,729</u>	<u>\$3,583,563</u>	<u>\$ 7,055,693</u>	<u>\$2,441,617</u>	<u>\$ 631,887</u>	<u>\$ 657,079</u>	<u>\$ 507,681</u>	<u>\$ 198,815</u>	<u>\$2,131,430</u>	<u>\$17,286,873</u>
INTERNAL SERVICE FUNDS											
Budgeted	\$ 484,738	\$1,162,278	\$ 161,375								\$ 1,808,391
Actual	480,717	954,367	161,363								1,596,447
Unspent Budget Authority	<u>\$ 4,021</u>	<u>\$ 207,911</u>	<u>\$ 0</u>								<u>\$ 211,944</u>

¹ See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

PERSONAL SERVICES

Salaries
Other Compensation
Employee Benefits
Total

OPERATING EXPENSES

Other Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Total

EQUIPMENT AND INTANGIBLE ASSETS

Equipment
Intangible Assets
Total

GRANTS

From State Sources
From Federal Sources
From Other Sources
Total

BENEFITS & CLAIMS

From State Sources
From Federal Sources
Total

TOTAL PROGRAM EXPENDITURES

GENERAL FUND

Budgeted
Actual
Unspent Budget Authority

SPECIAL REVENUE FUND

Budgeted
Actual
Unspent Budget Authority

INTERNAL SERVICE FUNDS

Budgeted
Actual
Unspent Budget Authority

¹ See note 7 on page A-11.

This schedule is prepared from

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
 SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Director's Office	Central Services	Environmental Sciences	Solid/ Hazardous Waste	Water Quality	Health Services/ Medical Facilities	Family/MCH Bureau	Preventive Health Bureau	Licensing and Certification ¹	Health Planning ¹	Petro Tank Release Comp Board	Total
PERSONAL SERVICES												
Salaries	\$ 367,406	\$1,255,587	\$1,124,635	\$ 1,264,317	\$1,209,957	\$285,951	\$ 546,800	\$ 508,550	\$ 868,778	\$ 62,918	\$ 171,937	\$ 7,666,836
Other Compensation	1,950				150			100				1,800
Employee Benefits	73,619	314,349	239,996	282,886	261,333	60,409	124,290	115,593	191,335	14,715	40,112	1,718,637
Total	<u>442,975</u>	<u>1,569,936</u>	<u>1,364,631</u>	<u>1,547,203</u>	<u>1,471,440</u>	<u>346,460</u>	<u>671,090</u>	<u>624,243</u>	<u>1,060,113</u>	<u>77,633</u>	<u>212,049</u>	<u>9,387,273</u>
OPERATING EXPENSES												
Other Services	441,069	138,993	560,184	2,338,549	910,049	197,339	939,562	1,185,982	20,739	52,991	34,901	6,820,360
Supplies & Materials	54,468	201,588	100,138	109,690	67,559	24,787	70,169	156,823	56,494	3,119	24,770	869,605
Communications	8,578	67,920	55,704	80,382	57,811	40,572	31,594	53,657	27,998	4,555	12,996	441,767
Travel	12,933	9,385	79,760	95,620	93,443	53,290	72,131	59,561	152,831	2,758	12,228	643,940
Rent	14,616	100,272	58,105	49,512	56,313	16,465	28,623	26,436	34,405	4,772	9,786	399,305
Utilities		11,682	9,372	10,610		183					2,084	33,931
Repair & Maintenance	2,907	47,555	23,984	12,187	10,126	4,647	5,554	2,632	2,744	399	958	113,693
Other Expenses	37,492	140,048	203,089	250,645	239,599	66,972	114,154	101,185	159,417	9,365	30,496	1,352,462
Total	<u>572,063</u>	<u>717,443</u>	<u>1,090,336</u>	<u>2,947,195</u>	<u>1,434,900</u>	<u>404,255</u>	<u>1,261,787</u>	<u>1,586,276</u>	<u>454,628</u>	<u>77,959</u>	<u>128,219</u>	<u>10,675,061</u>
EQUIPMENT AND INTANGIBLE ASSETS												
Equipment	1,757	15,196	107,822	26,887	18,853	9,279	109,073	6,664	39,858		4,538	339,927
Intangible Assets		1,750	793		2,450	37,764						42,757
Total	<u>1,757</u>	<u>16,946</u>	<u>108,615</u>	<u>26,887</u>	<u>21,303</u>	<u>47,043</u>	<u>109,073</u>	<u>6,664</u>	<u>39,858</u>		<u>4,538</u>	<u>382,684</u>
GRANTS												
From State Sources				40,072								40,072
From Federal Sources			125,211		148,383		8,281,929	11,968				8,567,491
From Other Sources			<u>187,680</u>	<u>791,784</u>	<u>39,148</u>							1,018,612
Total			<u>312,891</u>	<u>831,856</u>	<u>187,531</u>		<u>8,281,929</u>	<u>11,968</u>				<u>9,626,175</u>
BENEFITS & CLAIMS												
From State Sources											1,065,515	1,065,515
From Federal Sources							<u>7,043,975</u>					<u>7,043,975</u>
Total							<u>7,043,975</u>				<u>1,065,515</u>	<u>8,109,490</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,016,395</u>	<u>\$2,304,325</u>	<u>\$2,876,473</u>	<u>\$ 5,353,141</u>	<u>\$3,115,174</u>	<u>\$797,658</u>	<u>\$17,367,854</u>	<u>\$2,229,151</u>	<u>\$1,554,599</u>	<u>\$155,592</u>	<u>\$1,410,321</u>	<u>\$38,180,683</u>
GENERAL FUND												
Budgeted	\$ 260,163	\$ 668,329	\$1,007,703	\$ 195,269	\$ 191,308	\$406,158	\$ 63,910	\$ 646,147	\$ 414,056	\$167,111		\$ 4,020,154
Actual	246,703	608,328	945,981	169,338	171,914	381,954	50,000	587,084	331,436	155,592		3,648,330
Unspent Budget Authority	<u>\$ 13,460</u>	<u>\$ 60,001</u>	<u>\$ 61,722</u>	<u>\$ 25,931</u>	<u>\$ 19,394</u>	<u>\$ 24,204</u>	<u>\$ 13,910</u>	<u>\$ 59,063</u>	<u>\$ 82,620</u>	<u>\$ 11,518</u>		<u>\$ 371,822</u>
SPECIAL REVENUE FUND												
Budgeted	\$ 738,357	\$1,076,237	\$2,716,422	\$10,172,382	\$4,154,353	\$492,533	\$18,228,450	\$2,293,370	\$1,795,552		\$4,400,000	\$46,067,656
Actual	537,300	959,186	1,930,492	5,183,803	2,943,260	415,704	17,317,854	1,642,067	1,223,163		1,410,321	33,543,150
Unspent Budget Authority	<u>\$ 201,057</u>	<u>\$ 137,051</u>	<u>\$ 785,930</u>	<u>\$ 4,988,579</u>	<u>\$1,211,093</u>	<u>\$ 76,829</u>	<u>\$ 910,596</u>	<u>\$ 651,303</u>	<u>\$ 572,389</u>			<u>\$2,989,679</u>
INTERNAL SERVICE FUNDS												
Budgeted	\$ 282,415	\$ 804,983										\$ 1,087,398
Actual	232,392	756,811										989,203
Unspent Budget Authority	<u>\$ 50,023</u>	<u>\$ 48,172</u>										<u>\$ 98,195</u>

¹See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1992

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The department's General Fund support is used to meet maintenance of effort requirements on the Environmental Protection Agency (EPA) grant, to completely fund state licensure activities and to match federal funds for medicaid certification activities for all health care providers.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal activity such as Environmental Protection Grants, Maternal and Preventative Health Block Grant, and the Women, Infants and Children and Child Nutrition Programs. State Special Revenue funds include petroleum storage tank cleaners, and leak prevent programs, environmental quality protection, laboratory testing and Junk Vehicle Program.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include indirect charges assessed against all units of the department by the director's office and Centralized Services Division for providing department-wide support functions and services. Prior to fiscal year 1991-92 the Environmental Sciences Division was entirely funded with General Fund and state Resource Indemnity Trust (RIT) interest. Beginning in fiscal year 1991-92, the division administrative costs are supported through indirect charges made against all funding sources in the division.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year-end. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1992, the department had

Notes to the Financial Schedules

a liability of \$803,263 for annual leave, \$388,983 for sick leave, and \$8,621 for nonexempt compensatory leave.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to PERS was \$486,748 in fiscal year 1990-91 and \$622,509 in fiscal year 1991-92.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Prior Year Adjustments

The significant portion of the fiscal year 1991-92 prior year expenditure adjustment consists of transactions to cancel outstanding Women, Infants and Children program accruals.

6. Cash Transfers-In

DHES is statutorily allocated a percentage of the Resource Indemnity Trust (RIT) interest. In fiscal years 1990-91 and 1991-92, the Department of Revenue transferred \$977,408 and \$1,004,551, respectively in interest earned on the RIT.

In fiscal year 1989-90, the Petroleum Tank Release Compensation Board was established. Money is collected in the amount of 1 cent per gallon of gasoline distributed within the state from July 1, 1989 through June 30, 1991 and deposited to the Petroleum Tank Cleanup Fund. In fiscal year 1991-92, the fee decreased to .75 cents per gallon and the responsibility of collection transferred from Department of Revenue to the Department of Transportation.

DHES received \$4,757,303 and \$1,918,791, in fiscal years 1990-91 and 1991-92, respectively, in gasoline fees. The fiscal year 1991-92 transfer represents one quarter of gasoline fee collections. The petroleum tank cleanup fund reached a statutory cap

Notes to the Financial Schedules

on collections. As a result, the gasoline fee has not been imposed since October 1, 1991.

7. Re-Organization

In fiscal year 1991-92, the Health Planning Bureau was reduced to a unit within the Health Services Division.

In fiscal year 1991-92, the Licensing and Certification Bureau increased by 15 FTE to meet the federal nursing home reform regulations and is included under the Health Facilities Division.

8. Nonbudgeted Transfers-Out

The U.S. Environmental Protection Agency (EPA) implemented the state Water Pollution Control Revolving Fund Capitalization Grant Program (SRF) as required by the Clean Water Act. The program awards grants to states to capitalize funds that will provide assistance for water pollution control purposes. In coordination with the Department of Natural Resources and Conservation (DNRC), the department records a nonbudgeted transfer out for SRF loans to municipalities for construction of treatment works, or development and implementation of pollution control programs and plans. In fiscal year 1991-92, a \$5,481,912 transfer out was recorded.

9. Estimated Revenue vs. Actual Revenue

Charges for services revenue recorded in the Special Revenue Fund for fiscal year 1991-92 was less than estimated because the department anticipated \$4.9 million in Natural Resource Damages and collected zero. The department is authorized to receive an inter-entity loan from the General Fund of \$4.9 million to continue the natural resources lawsuit against ARCO. The loan will be paid back through reimbursements from ARCO. As of June 30, 1992, the department has not recovered any money.

Grants, Contracts, and Donations actually collected in the Special Revenue Fund for fiscal year 1991-92 was less than anticipated because of \$407,000 estimated for the Blackfoot River project and zero collected. The Blackfoot River project is a designated project under the Reclamation and Development Grants program of the DNRC. Grants are awarded in order of project priority,

Notes to the Financial Schedules

until available funds are expended. Funds were no longer available for the Blackfoot River project.

Federal Indirect Cost Recoveries actually received in fiscal year 1991-92 were significantly higher than estimated. This was the result of an increase of 82.34 full-time equivalents (FTE) in fiscal year 1991-92 due to increased workload resulting from program expansions. The 1992-93 biennium indirect cost rate is applied against the budgeted personal service costs, which are higher due to the additional FTE.

Agency Response

DEPARTMENT OF
HEALTH AND ENVIRONMENTAL SCIENCES
DIRECTOR'S OFFICE

COGSWELL BUILDING
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PO BOX 200901



STATE OF MONTANA

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HELENA, MONTANA 59620-0901

May 19, 1993

Mr. Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

JUN 25 1993

Dear Mr. Seacat:

The Department of Health and Environmental Sciences (DHES) has reviewed the audit for the two Fiscal Years Ended June 30, 1992. The agency's responses are as follows:

Recommendation #1

We recommend the department maintain a system to monitor the state's receipt, review, and resolution of all required audit reports and report issues, in compliance with federal regulations.

Response

Concur

We are in the process of preparing an agreement with the Department of Commerce, Local Government Services Division assigning them the responsibility for timely monitoring and reviewing county audit reports. This assignment is being made under the provisions of the Montana State Single Audit Act. It will remain the responsibility of the DHES to resolve the audit findings that are referred to us in accordance with A-128 requirements. This agreement should be in place by July 1, 1993.

Recommendation #2

We recommend the department establish procedures to ensure accurate reports are provided to the federal government in accordance with federal regulations.

Response

Concur

This process should be implemented by July 1, 1993.

Recommendation #3

We recommend the department record deferred revenue in accordance with state accounting policy.

Response

Concur

The Department will implement procedures to comply with this by July 31, 1993.

Recommendation #4

We recommend the department review account balances to ensure financial activity in its federal special revenue accounts is recorded in accordance with state accounting policy.

Response

Concur

We have conferred with the Accounting Bureau, DOA, and have a commitment that they would run the last mid-month 411 later this fiscal year end. This will allow us adequate time to eliminate fund balances.

Recommendation #5

We recommend the department analyze and correct the account balances in the federal Public Health account.

Response

Concur

Accounting entity 03029 has been used as a general purpose accounting entity for short-term grants, one time grants, and other contracts for services which generally do not require a long-term commitment.

We are currently in the process of clearing the various control accounts in this entity. We will be requesting at least one additional federal special accounting entity(EMS Trauma), to accommodate ongoing expected activity. We will have all old activity reconciled and out of this entity by July 31, 1993.

Recommendation #6

We recommend the department:

- A. Coordinate with the Governor's Office to ensure the Water Pollution Control Advisor Council complies with stat law, or
- B. Consider legislation to eliminate the council.

Response

Concur

The Department will coordinate with the Governor's Office to ensure the Water Pollution Advisor Council complies with state law. This will be implemented by June 30, 1994.

Recommendation #7

We recommend the department implement procedures to:

- A. Monitor programmer access to production programs and data files.
- B. Prevent unauthorized use of WIC program billing account numbers.
- C. Review ACF2 reports for unauthorized access to system programs and billing account numbers.

Response

Concur

Changes have been implemented to monitor programmer access to production programs and data files and to prevent unauthorized use of WIC program billing account numbers. ACF2 reports for the department have and will continue to be reviewed by the security officer or assistant security officer on a daily basis. Any violations are resolved immediately.

Recommendation #8

We recommend the department implement procedures to suspend mainframe logon IDs upon contract personnel termination.

Response

Concur

The department has implemented an automatic suspension of mainframe logon IDs based on the contract termination dates or as specified in writing by the contract manager.

Recommendation #9

We recommend the department develop a disaster recovery plan for its WIC application, in accordance with state policy.

Response

Partially Concur

Once Information Systems Division (ISD) of the Department of Administration has informed the department that they are prepared to develop and test individual system disaster and recovery plans, the department will aggressively pursue the development of such a plan for the WIC mainframe system. However, it is possible that such a plan will become moot since it is planned to have the new WIC system will be in place within the next year. A disaster recovery plan for the new WIC system is being incorporated into the development of the new WIC system. This system should be implemented by June 30, 1994.

Recommendation #10

We recommend the department implement policies and procedures to ensure security over computer data and information resources in accordance with state law.

Response

Concur

The department is in the process of augmenting its Internal Security Evaluations as prescribed in 2-15-114 MCA. This is being done by promulgating department policies and documenting existing informal and formal internal security procedures. This should be implemented by June 30, 1994.

Recommendation #11

We recommend the department establish procedures to document and reconcile application errors.

Response

Do not concur.

This section's narrative is incorrect. Procedures are in place to document and reconcile application errors.

Certification errors and voucher redemption errors have been confused by the audit team. Certification errors are always corrected within a month, and before the end of closing to ensure that ineligible persons do not receive program benefits (vouchers) in error month after month.

The certification component of the current system provides validation that WIC benefits are correctly issued to eligible program participants because final monthly program reports can not be successfully run if outside the required date parameters.

Voucher redemption errors are identified through post-payment edits of all redeemed vouchers. It is our policy that only store-generated errors of \$5.00 or more (above the estimated cost of foods) on one food voucher are cost-efficient to collect. Because vouchers are issued at local agencies, department personnel are dependent upon those staff members to determine the status of voucher redemption errors and can not cost-effectively resolve errors more quickly. Local agencies are allowed to make quarterly voucher redemption error reports considering the relatively small number of errors involved. Approximately 105,000 food vouchers are issued statewide each quarter and approximately 350 errors are identified, reflecting a .3% error ratio in the 90-day redemption pattern of food vouchers.

While certified eligible participants are told to redeem their vouchers within 30 days of issuance some are redeemed outside that date parameter. Post-payment edits flag those vouchers and local agencies are advised to follow-up with the client. If fraud or abuse is evident, participant sanctions are instituted as described in the state WIC plan and procedures manual. If it is not the participant's error, and the person remains eligible for program benefits in all other respects, the participant may continue to receive and redeem vouchers even though a voucher redemption error may be outstanding.

Mr. Scott A. Seacat
Page 6
May 19, 1993

Recommendation #12


We recommend the department follow a systematic development approach for the proposed WIC computer system.

Response

Concur.

The replacement computer system will include these recommendations as well as many others which are needed to contribute to a fully functional and secure system.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Robinson", written in dark ink.

Robert J. Robinson
Director

LEGALAUD

